FINAL BILL REPORT
SHB 1257

C 368 L 97

Synopsis as Enacted

Brief Description: Providing tax exemptions and credits for coal-fired thermal electric generating facilities placed in operation before July 1, 1975.

Sponsors: By House Committee on Finance (originally sponsored by Representatives DeBolt, Alexander, Pennington, Sheldon, Kessler, Poulsen, McMorris, Mielke, Van Luven, Grant, Crouse, Mastin, Doumit and Hatfield).

House Committee on Energy & Utilities
House Committee on Finance
Senate Committee on Agriculture & Environment
Senate Committee on Ways & Means

Background: The Centralia Steam Plant and adjacent coal mine are located in Lewis County approximately five miles northeast of Centralia. PacifiCorp operates the steam plant and owns the largest share, 47.5 percent. Other owners include Washington Water Power (15.0 percent), Seattle City Light, Tacoma Public Utilities, and Snohomish County Public Utility District (each with 8.0 percent), Puget Power (7.0 percent), Grays Harbor Public Utility District (4.0 percent), and Portland General Electric (2.5 percent). The plant has two coal-fired units capable of producing 1,300 megawatts of electricity, enough to serve Seattle. The plant is the only thermal electric generating facility in the state that was placed in operation after December 31, 1969, and before July 1, 1975.

The steam plant is the sole customer of the Centralia Coal Mine, which is operated by the Centralia Mining Company, a wholly owned subsidiary of PacifiCorp.

Together, the steam plant and coal mine employ approximately 670 people.

<u>Air Pollution Control Requirements:</u> The Centralia Steam Plant is the largest single source of sulfur dioxide pollution in the state. Sulfur dioxide emissions have been blamed for impairing visibility of Mount Rainier.

In the early 1990s, the federal and state clean air acts were revised to require existing industrial pollution sources to meet reasonably available control technology– standards.

In 1995, the Southwest Washington Air Pollution Control Authority issued an order requiring the Centralia Steam Plant to reduce sulfur dioxide emissions by 50 percent by the year 2001. When the order was issued, the National Park Service and the U.S. Forest Service argued greater emission reductions were needed. The Centralia plant owners then met with the National Park Service, U.S. Forest Service, U.S. Environmental Protection Agency, state Department of Ecology, Southwest Washington Air Pollution Control Agency, and the Puget Sound Air Pollution Control Agency to develop a recommendation on further emission reductions.

The final recommendation of this collaborative decision-making group was to require the Centralia Steam Plant to construct two scrubbers on site. The first scrubber would be in operation by December 31, 2001, and the second in operation by December 31, 2002, with an expected 90 percent reduction in sulfur dioxide emissions by the year 2003.

The two scrubbers reportedly are expected to cost approximately $264 million (nominal value, estimated at $172 million net present value).

Implementation of the agreement is contingent on the owners of the steam plant receiving certain tax exemptions.

Sales and Use Taxes: Sales tax is imposed on retail sales of most items of tangible personal property, and on some services. The state sales tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total tax rate is between 7 percent and 8.6 percent, depending on location. Sales tax is paid by the purchaser and collected by the seller.

Use tax is imposed on the use of an item in the state, when the acquisition of the item has not been subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. The use tax rate is equal to the sales tax rate. Use tax is paid directly to the Department of Revenue.

Property Tax: Unless a specific exemption is provided by law, annual state and local property taxes are imposed on all real and personal property in the state. Property is assessed at its true and fair market value, and the amount of tax owed is determined by multiplying the assessed value by the tax rate for each taxing district in which the property is located.

Rate Regulation: The Washington Utilities and Transportation Commission (WUTC) regulates the rates charged by investor-owned utilities. By statute, the rates must be just and reasonable. An investor-owned utility planning to change a rate must file a tariff schedule of proposed rates and charges with the WUTC.

Summary: By providing for certain tax exemptions, the Legislature intends to assist thermal electric generating facilities in updating their air pollution control equipment and abating pollution. The following tax exemptions, which apply only to thermal electric generating facilities placed in operation after December 31, 1969, and before July 1, 1975, are created.

<u>Sales and Use Tax Exemptions for Pollution Control Equipment:</u> Retail sales and use taxes will not apply to purchases of tangible personal property for, or to charges for labor and services performed in, the construction or installation of air pollution control facilities at a thermal electric generating facility. The exemptions apply to both state and local taxes, and may be claimed as of the effective date of the act. The exemptions do not apply to purchases of tangible personal property, labor, or services used for maintenance or repairs of pollution control equipment.

If a generating facility is abandoned before the year 2023, all or part of the sales and use tax exemptions granted on air pollution control equipment must be repaid to the state. If the facility is abandoned in the year 2003, the facility's owners must repay 100 percent of sales and use tax exemptions taken under the provisions of this act. If the facility is abandoned in the year 2004, the owners must repay 95 percent. For each additional year the facility operates, the repayment amount is reduced by 5 percent. If a facility is not abandoned until the year 2023 or later, the owners are not required to repay any sales or use tax exemptions.

If a company has claimed sales and use tax exemptions on the purchase of new air pollution control equipment and abandons the equipment before it has been fully depreciated, the company may not recover the remaining, un-depreciated value of the equipment through a tariff filing with the Utilities and Transportation Commission, as such a filing will be considered unjust and unreasonable.

<u>Sales and Use Tax Exemptions for Coal:</u> Beginning January 1, 1999, new sales and use tax provisions will apply to coal used at a thermal electric generating facility, provided facility owners demonstrate reasonable progress in installing air pollution control facilities, and at least 70 percent of the coal used was from a coal mine in Lewis County or a contiguous county. If the facility owners file an application with the Department of Revenue, and the Department of Ecology verifies initial and continued progress in the construction of the air pollution control facilities, sales and use taxes on the coal will be paid into a newly created sulfur dioxide abatement account.

When sulfur dioxide emissions are reduced to no more than 10,000 tons during a previous consecutive 12-month period, facility owners will receive the funds in the account. Unless the failure is due to regulatory delays or defensive litigation, funds in the account will be transferred to the state general fund and to appropriate local governments if the facility fails to achieve the emission reduction by March 1, 2005. The sulfur dioxide abatement account will cease to exist after March 1, 2005.

A facility will forfeit these exemptions for at least one year if less than 70 percent of the coal consumed at the facility during the previous calendar year was from a coal mine in Lewis County or a contiguous county. In addition, if the facility emits excessive sulfur dioxide during a consecutive 12-month period, the facility will lose the exemptions until the facility emits no more than 10,000 tons of sulfur dioxide during a consecutive 12-month period.

<u>Property Tax Exemptions:</u> Air pollution control equipment is exempted from state and local property taxes.

<u>Displaced Workers Account:</u> If a thermal electric generating facility takes advantage of the sales and use tax exemptions granted by the act, but ceases operations prior to December 31, 2015, the facility must deposit money into the displaced workers account created by the act. The amount of money deposited into the account must equal the fair market value of one-fourth of the facility’s total federal sulfur dioxide allowances. The Legislature will appropriate money in the account to compensate and retrain workers displaced by the facility’s closure.

<u>Rule-making Authority.</u> The Department of Revenue and Department of Ecology may adopt rules to implement the act.

Votes on Final Passage:

House	96	0	
Senate	44	0	(Senate amended)
House	89	0	(House concurred)

Effective: May 15, 1997